

# Joint Economic Committee WEEKLY ECONOMIC DIGEST

Senator Charles Schumer, Chairman  
Congresswoman Carolyn Maloney, Vice Chair

December 3, 2007

## ECONOMIC NEWS

### Housing Problems Persist

**House prices fell.** For the first time in nearly thirteen years, the Office of Federal Housing Enterprise Oversight national House Price Index (OFHEO Index) experienced a quarterly decline of 0.4 percent compared to the second quarter of 2007. The annual price change, comparing the third quarter of 2007 to the same period last year showed an increase of only 1.8 percent, the lowest four-quarter increase since 1995. The national S&P/Case-Shiller Index, which includes higher priced houses not included in the OFHEO Index, declined 1.7 percent for the quarter. This is the fifth straight quarter of decline in the S&P/Case-Shiller Index. The index has declined a total of 4.5 percent in the past year.

**Sales of existing homes fell last month.** Seasonally adjusted sales of existing homes (including single-family units, townhouses, condominiums, and coops) dropped by 1.2 percent in October to 4.97 million units at an annual rate. That is 20.7 percent below the level of sales a year ago. The October drop reflects declines in the West and Midwest: sales declined by 4.4 percent in the West (down 33.1 percent over the past year), and 1.7 percent in the Midwest (down 16.9 percent over the past year). Sales in the other parts of the country did not decline this month, although they remain substantially below 2006 levels.

**New home sales are 23.5 percent below October 2006 sales.** Seasonally adjusted sales of new single-family homes were reported to be 728,000 units at an annual rate, which is 23.5 percent below the October 2006 estimate of 952,000. While the October 2007 numbers are slightly above the revised September rate of 716,000, the number of unsold new homes remains high. At current sales rates, it would take 8.5 months to clear the current stock of unsold new homes.

**Third quarter GDP reported to be 4.9 percent at an annualized rate.** This is a one percent increase from the advance estimate of third quarter GDP, previously released by the Bureau of Economic Analysis (BEA). BEA reports that this increase in GDP growth is a result of upward revisions in the values of both net exports and net changes in inventories. The increase in net exports this month includes manufacturer's shipments of completed aircraft, and may not be sustained.

## IN FOCUS

### The Economic Costs of the War in Iraq

The budgetary costs of the war in Iraq have risen steeply since the start of the war in 2003. The President's \$196 billion supplemental request for FY2008 funding includes an estimated \$157 billion for the war. If Congress approves this additional request, over \$600 billion through 2008 will have been spent for the Iraq war – over ten times the President's original pre-war estimate of \$50 to \$60 billion.

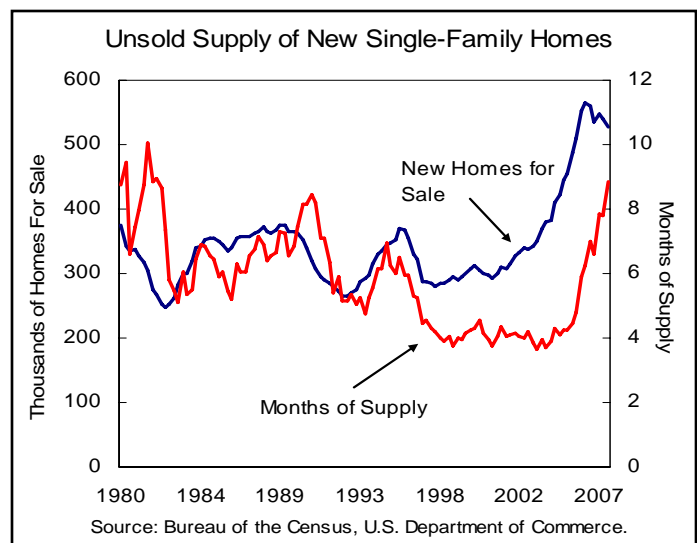
However, a recent JEC study finds that the total economic costs of the war have been approximately double the direct budgetary costs. Budget numbers do not include opportunity costs of financing the war with borrowed funds, its impact on world oil markets, and the costs of medical care and lost wages for wounded veterans. Should the President's 2008 supplemental be approved in full, the total economic costs incurred for the war will be approximately \$1.3 trillion through 2008.

The war in Iraq comes during a period of rapidly growing public debt and was funded using off-budget, emergency supplemental spending requests. Given the already steep fiscal demands on the Federal government and the Administration's unwillingness to offer a proposal to pay for the war, it is fair to assume that future war spending will likely be borrowed as well.

Federal borrowing imposes a number of costs on the economy. Most of these costs occur in the future, which means

*Continued on reverse...*

## SNAPSHOT



# Joint Economic Committee WEEKLY ECONOMIC DIGEST

## THE WEEK AHEAD

### DAY

Wednesday, Dec 5

Friday, Dec 7

### RELEASE

Productivity and Costs (Third Quarter, Revisions)  
Full Report on Manufacturers' Shipments, Inventories and Orders (October 2007)

The Employment Situation (November 2007)  
Consumer Credit (October 2007)

*Friday  
December 7:  
November  
Payroll  
Employment*

## THE ECONOMY AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	Oct	Sep	Aug	2007 Q3	2007 Q2	2007 Q1	2006	2005
Real GDP Growth (%)	—	—	—	4.9	3.8	0.6	2.9	3.1
Unemployment (% of labor force)	4.7	4.7	4.6	4.7	4.5	4.5	4.6	5.1
Labor Productivity Growth (%)	—	—	—	4.9	2.2	0.7	1.0	1.9
Labor Compensation Growth (%)	—	—	—	3.1	3.5	3.1	3.1	3.3
CPI-U Inflation (%)	3.7	3.7	-1.2	1.9	6.0	3.8	3.2	3.4
Core CPI-U Inflation (%)	2.4	2.4	2.4	2.5	1.9	2.3	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

## IN FOCUS (Continued)

that borrowing passes on the costs of the war to future generations. The most significant cost is the opportunity cost of the borrowed funds. Federal borrowing generally displaces some private sector capital investment and decreases the size of the national capital stock. The future return on this productive capital investment will be lost to the nation.

In some cases funds may be borrowed from foreign lenders, which tend to reduce the impact on domestic capital stock. However, borrowing from foreign lenders also leads to a flow of future interest payments out of the U.S. economy, from American taxpayers to foreign creditors like China and Saudi Arabia. This is another economic cost of borrowing.

In addition to the future costs created by borrowing, the Iraq war has disrupted oil markets. The price of oil has increased by some \$60 a barrel since the invasion of Iraq. Although the majority of this increase is likely due to the growth in world oil demand, the combination of direct supply disruption from Iraq and the political turbulence created by the war has created some upward pressure on oil prices. The recent JEC study estimates that approximately \$5 per barrel of the oil price increase has been due to the Iraq war.

Finally, there are a variety of additional war costs due to the future lost wages and medical care of injured veterans, as well as significant costs to the military such as increased recruitment bonuses, possible force expansion, and repair and reset of military equipment damaged in the war.

Even if there is a considerable drawdown of troops in Iraq, with some number remaining until 2017, the JEC estimates that the total economic costs of the war will reach at least \$2.8 trillion for the entire 2003-2017 period.